

Message Text

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ACTION NEA-07

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P R 181042Z APR 77
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC PRIORITY 2124
INFO AMEMBASSY JIDDA
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 TEHRAN 3371

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E.O. 11652: GDS
TAGS: CIEC ENRG IR
SUBJ: IRAN AND THE CIEC

1. I MET WITH MINISTER OF STATE JAMSHID AMOUZEGAR, WHO WILL HEAD THE IRANIAN DELEGATION TO THE FORTHCOMING CIEC MINISTERIAL CONFERENCE, TO REVIEW IRANIAN ATTITUDES TOWARDS ISSUES THAT WILL BE DISCUSSED AT THAT TIME. THE FIRST QUESTION WE DISCUSSED WAS OIL PRICES AND THE ISSUE OF INDEXATION. AMOUZEGAR SAID THAT IRAN HAD NOW COME TO THE CONCLUSION THAT OIL PRICE INDEXATION WAS A LESS FEASIBLE OR DESIRABLE OBJECTIVE THAN REACHING AGREEMENT ON A FORMULA WHICH WOULD PROVIDE FOR A GRADUAL INCREASE IN OIL PRICES TO THE POINT WHERE THEY WERE EITHER VERY CLOSE TO OR JUST SHORT OF COSTS OF ALTERNATIVE SOURCES OF ENERGY. HE SAID THAT HE BELIEVED THERE WAS A GROWING WORLD CONSENSUS THAT ONE OF THE MOST IMPORTANT QUESTIONS OF THE NEXT TWO DECADES WAS THE SEARCH FOR ALTERNATIVES TO OIL IN THE REALIZATION THAT IT WAS RAPIDLY RUNNING OUT. HE NOTED PRESIDENT CARTER'S REFERENCE TO A CIA STUDY TO THIS EFFECT. OBVIOUSLY, HE SAID, ALTERNATIVES WILL NOT BE DEVELOPED IF THERE IS LITTLE ECONOMIC INCENTIVE, AND THE ONLY MEANS OF PROVIDING THIS INCENTIVE, AT LEAST IN A PRIVATE ENTERPRISE ECONOMY, WAS TO BRING THE
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PRICE OF OIL NEAR TO THE PRICE OF ALTERNATIVES. WHEN ASKED ABOUT IRAN'S PAST INSISTENCE ON MAINTAINING THE PURCHASING POWER OF ITS OIL THROUGH SOME MEANS OF INDEXATION OR LINKAGE, AMOUZEGAR SAID THAT THIS IS NO LONGER AN IRANIAN OBJECTIVE ALTHOUGH IT IS IMPLICIT TO A CERTAIN EXTENT IN THE SHIFT TOWARD EMPHASIZING ACHIEVEMENT OF A PRICE APPROACHING ALTERNATIVE ENERGY COSTS. WHEN ASKED IF HE HAD MORE SPECIFIC IDEAS ABOUT

HOW SUCH A FORMULA MIGHT BE DEVISED, HE REPLIED THAT A CONSENSUS WOULD HAVE TO BE DEVELOPED AS TO WHAT THE LIKELY PRICE OF ALTERNATIVE ENERGY MIGHT BE BY SAY 1985. ONCE THIS FIGURE WAS DETERMINED ANNUAL PERCENTAGE PRICE INCREASES COULD BE PROJECTED FOR THE PRICE OF OIL TO MOVE GRADUALLY AND SMOOTHLY TOWARD A HIGHER LEVEL. IF, HOWEVER, SUBSTANTIAL ECONOMIC DISEQUILIBRIUM OCCURRED ON THE INTERNATIONAL ECONOMIC SCENE, THE FORMULA COULD BE REVISED. ALSO, FOR EXAMPLE, IF SOME TECHNOLOGICAL BREAK-THROUGH OCCURRED WHICH LOWERED THE PROSPECTIVE PRICE OF ALTERNATIVE ENERGY, THE OBJECTIVE AND PERCENTAGE INCREASES COULD BE LOWERED. IN THE LATTER CASE I SUGGESTED THAT MARKET FORCES WOULD LIKELY DETERMINE ENERGY COSTS REGARDLESS OF SOURCES. AMOUZEGAR SAID THAT HE HAD HEARD THAT THE PRICE OF ALTERNATIVE ENERGY WAS NOW ABOUT THE EQUIVALENT OF \$24 A BARREL OF OIL BUT DID NOT INDICATE THAT THIS WOULD NECESSARILY BE THE FIGURE IRAN WOULD ADVANCE AS THE TARGET GOAL FOR THE PRICE OF ITS OIL BY, SAY 1985.

2. TURNING TO THE CURRENT TWO-TIER OPEC PRICE STRUCTURE, AMOUZEGAR SAID THAT VARIOUS FORMULAS HAD BEEN ADVANCED TO RESTORE OPEC PRICE UNITY. HE REPEATED WHAT HE HAS SAID ELSEWHERE THAT SAUDI OIL IS NOW SELLING FOR 9 PERCENT ABOVE PREDOHA 1976 FIGURES AND SHOWED ME SEVERAL INTERNATIONAL MARKET NEWSLETTERS TO SUPPORT HIS STATEMENT. THESE NEWSLETTERS ALSO EXPRESSED THE EXPECTATION WHICH AMOUZEGAR CLEARLY SHARED, THAT THE MARKET WOULD REMAIN BUOYANT FOR THE BALANCE OF 1977. HE SAID THAT IRAN WAS STILL WILLING TO COMPROMISE WITH SAUDI ARABIA BY FOREGOING AN ADDITIONAL 5 PERCENT PRICE INCREASE
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IN JULY IF SAUDI ARABIA BROUGHT ITS PRICES UP TO THE 10 PERCENT PRICE INCREASE THE REST OF OPEC, LESS ONE (UAE), WAS NOW OBSERVING. ALTERNATIVELY, HE SAID, A FORMULA MIGHT BE DEVISED FOR IRAN TO INCREASE PRICES IN JULY BY ONLY 2 PERCENT IF SAUDI ARABIA CAME UP TO 8 PERCENT AND BOTH HELD THROUGH THE REST OF 1977. IN ANY EVENT, HE FORESAW ANOTHER PRICE INCREASE COMING BY THE BEGINNING OF 1978. HE INTERPRETED PRINCE FAHD'S RECENT PUBLIC REMARKS AS A SHIFT IN SAUDI ARABIA'S PRICE POSITION AND SEEMED OPTIMISTIC THAT SAUDI-IRANIAN DIFFERENCES CAN BE COMPOSED.

3. ON THE QUESTION OF A CIEC COMMON FUND,

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C O N F I D E N T I A L SECTION 2 OF 2 TEHRAN 3371

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AMOUZEGAR SAID THAT IRAN THOUGHT THIS WAS GENERALLY A GOOD IDEA AND THAT IT WOULD BE WILLING TO PARTICIPATE. ITS CONTRIBUTION TO SUCH A FUND, HOWEVER, WOULD HAVE TO COME OUT OF ITS COMMITMENT TO THE OPEC FUND WHICH HE CLAIMED NOW STOOD AT \$1.6 BILLION WITH ONLY ABOUT \$400 MILLION DISBURSED.

4. AMOUZEGAR FORESAW GREAT DIFFICULTIES IN REACHING AGREEMENT ON BUFFER STOCKS AND INDICATED THAT BASICALLY IRAN WAS AGAINST SUCH AN IDEA ALTHOUGH HE DID NOT RULE OUT THE POSSIBILITY OF SOMETHING BEING WORKED OUT FOR TWO OR THREE COMMODITIES. BASICALLY HE THOUGHT THAT THE COMMON FUND OUGHT TO BE USED TO EASE PROBLEMS THAT AROSE OVER COMMODITY PRICE FLUCTUATIONS.

5. AMOUZEGAR SAID THAT IRAN WELCOMED THE US PROPOSAL FOR AN ENERGY FUND WHICH HE FELT WAS SORELY NEEDED AND WHICH SHOULD EASE THE PROBLEMS OF SUCH AREA LDC'S AS INDIA AND PAKISTAN. AGAIN HE NOTED, HOWEVER, THAT ANY CONTRIBUTION WOULD HAVE TO COME OUT OF THE OPEC FUND. HE WENT ON TO EXPLAIN THAT THE MERIT OF ESTABLISHING AND MAINTAINING AN OPEC FUND WHICH COULD RESPOND TO A VARIETY OF REQUESTS FOR CONTRIBUTIONS TO DIFFERING INTERNATIONAL FINANCIAL ARRANGEMENTS LAY IN THE ABILITY OF
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THE OPEC FUND TO RESPOND INSTANTLY TO SUCH REQUESTS. COMMITMENTS OF OPEC MEMBERS TO THE OPEC FUND WERE ONE TIME ANNUAL AFFAIR, AND ONCE THE MONEY WAS AVAILABLE VARIOUS MEMBER COUNTRIES DID NOT HAVE TO GO BACK TO THEIR GOVERNMENTS FOR NEW LEGISLATION TO RESPOND TO MORE SPECIFIC AID REQUESTS.

6. WITH RESPECT TO THE LOAN MORATORIUM QUESTION, AMOUZEGAR

SAID THAT IRAN WAS 100 PERCENT AGAINST DEBT FORGIVENESS. AS A CREDITOR COUNTRY IT HAD A VESTED INTEREST IN TAKING THIS POSITION, BUT ALSO AMOUZEGAR SAID THAT IT WOULD ESTABLISH A BAD PRECEDENT. NEVERTHELESS, IRAN WAS FLEXIBLE AND OPEN-MINDED ABOUT DEBT ROLL-OVER OR STRETCH-OUT FOR HARD-PRESSED LDC'S AND WOULD BE INCLINED TO GO ALONG WITH A CIEC CONSENSUS IN THIS AREA.

7. FINALLY, REFERRING BACK TO THE QUESTION OF OIL PRICES, AMOUZEGAR SAID THAT IRAN AWAITED WITH GREAT INTEREST PRESIDENT CARTER'S ANTICIPATED STATEMENT ON OUR ENERGY POLICY. WHILE HE BELIEVED THAT HE ALREADY KNEW ITS BROAD OUTLINES, IT MAY BE THAT SPECIFIC ELEMENTS COULD MODIFY IRANIAN CIEC TACTICS IF NOT OBJECTIVES ON THIS QUESTION.

8. WE WELCOME THE DEPARTMENT'S COMMENTS AND ANY THOUGHTS WE MAY CONVEY TO THE GOI IN WHAT WE HOPE WILL BE A CONTINUING AND CONSTRUCTIVE DIALOGUE LEADING TOWARD THE CIEC MEETING.
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